

Message Text

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ORIGIN EUR-25

INFO OCT-01 EA-11 IO-13 ADP-00 EB-11 AGR-20 AID-20 CEA-02

CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 RSC-01 CIEP-02

STR-08 TRSE-00 LAB-06 SIL-01 OMB-01 SSO-00 NSCE-00

USIE-00 INRE-00 SS-15 NSC-10 L-03 PA-03 PRS-01 /166 R

DRAFTED BY EUR/RPE:AKATZ:JMR

7/21/73, EXT. 20310

APPROVED BY EUR/RPE:ABRAHAM KATZ

EB:JKATZ

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O R 211915Z JUL 73 ZFF4

FM SECSTATE WASHDC

TO USMISSION EC BRUSSELS NIACT IMMEDIATE

INFO AMEMBASSY PARIS

AMEMBASSY BONN

AMEMBASSY ROME

AMEMBASSY THE HAGUE

AMEMBASSY BRUSSELS

AMEMBASSY LUXEMBOURG

AMEMBASSY COPENHAGEN

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AMEMBASSY OTTAWA

AMEMBASSY CANBERRA

USMISSION OECD PARIS

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USMISSION GENEVA

C O N F I D E N T I A L STATE 143944

SUBJECT: EC COMMISSIONER LARDINOIS' VISIT TO WASHINGTON,
JULY 20.

1. COMMISSIONER LARDINOIS, ACCOMPANIED BY RABOT AND

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WIJNMAALEN, CONFERRED JULY 20 IN A SERIES OF MEETINGS WITH

SECRETARY BUTZ, UNDER SECRETARY CASEY, MESSRS. STEIN, FLANIGAN, DUNLOP, EBERLE AND A NUMBER OF OTHER OFFICIALS. THIS MESSAGE REPORTING THE HIGHLIGHTS OF THE VISIT HAS NOT BEEN CLEARED IN THE PARTICIPATING AGENCIES AND MAY BE SUPPLEMENTED SUBSEQUENTLY. A SEPARATE MESSAGE WILL GIVE THE FIELD THE GIST OF THE STATISTICAL PRESENTATION GIVEN TO LARDINOIS.

2. LARDINOIS WAS FULLY AND FRANKLY BRIEFED ON THE REASONS FOR RECENT MEASURES AFFECTING SOYBEAN CONTRACTS AND TOLD, AS THE PRESIDENT HAS MADE CLEAR IN HIS PHASE IV MESSAGE, WE EXPECT NOT TO HAVE TO IMPOSE EXPORT CONTROLS IN (OMING CROP YEAR. LARDINOIS UNDERSTANDS THAT TWO VARIABLES WHICH COULD ADVERSELY AFFECT SITUATION ARE RAINFALL FOR CORN (ROP AND LEVEL OF FOREIGN DEMAND. BARRING POOR RAIN CONDITIONS, PRODUCTION SHOULD BE ADEQUATE TO MEET DOMESTIC AND FOREIGN CONSUMPTION NEEDS BUT NOT SPECULATIVE OR STOCKPILING PURCHASES. SINCE SOVIET PURCHASES HAVE BEEN COMPLETED AND WE BELIEVE CHINESE HAVE MADE BULK OF THEIR PURCHASES, WE LOOK TO EC, JAPAN, AND CANADA TO RESTRAIN DEMAND TO NORMAL CONSUMPTION.

3. LARDINOIS DESCRIBED EC'S DELIBERATE POLICY OF DEPENDENCE ON US SOYBEAN PRODUCTION AND SHOCK AT US ACTION ABROGATION CONTRACTS WHICH HAS CAUSED CONSIDERABLE DIFFICULTIES IN COMMUNITY. HE URGED EARLIEST POSSIBLE RETURN TO NORMAL TRADE SYSTEM, TREATING ALL CONSUMERS ON EQUAL FOOTING, TO HEAD OFF AUTARKIC PRESSURES IN EC. IF FREE TRADE IS NOT RESTORED, EC WOULD HAVE TO BUILD UP SELF-SUFFICIENCY IN PROTEIN THROUGH LEGUME AND UREA PRODUCTION. HE SAID THAT EC CROP THIS YEAR WILL BE NORMAL, THAT COMMUNITY HAS NO INTENTION OF BUILDING UP STOCKS, AND THAT FARMERS AND COMPOUNDERS HAVE NO SIGNIFICANT CAPABILITY FOR DOING SO. PROBLEM, HE SAID, IS HOW TO PREVENT PRIVATE TRADING COMPANIES, MANY OF WHICH ARE AFFILIATED WITH US FIRMS, FROM SPECULATIVE INVENTORY BUILDUP. HE CITED COMMUNITY'S ADVANCE DEPOSIT SCHEME AS HELPFUL IN ELIMINATING "WATER CONTRACTS" AND PLEDGED EXCHANGE OF INFORMATION AND USE OF OTHER AVAILABLE EC MECHANISMS TO TRY TO DISCOURAGE PRIVATE STOCKPILING IN EUROPE. BUT HE STRESSED MAJOR

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EFFORT IN THIS REGARD MUST BE MADE BY US.

4. LARDINOIS QUESTIONED WHETHER US HAD "NERVE" TO SEE PRICES INCREASE WITHOUT REINSTITUTING CONTROLS. US SIDE FRANKLY DISCUSSED EXPERIENCE WITH PRICE CONTROLS, CITING PRESIDENT'S DECISION ON PHASE IV AS CLEAR EVIDENCE OF DETERMINATION TO RETURN TO MARKET SYSTEM.

5. LARDINOIS EXPRESSED APPRECIATION FOR DECISION RELEASE SOYBEAN MEAL OF APPROXIMATELY 5 MILLION BUSHELS BEAN EQUIVALENT WHICH WAS IN PIPELINE AT THE TIME EMBARGO IMPOSED, AND STRONGLY URGED THAT AS STOCK SITUATION CLARIFIED MORE SOYBEANS SHOULD BE RELEASED. HE ASKED THAT, IN INTEREST OF BRINGING DOWN EC PRICES, US RELEASE ADDITIONAL SOYBEANS GIVING PRIORITY TO 100 PERCENT FULFILLMENT OF EARLIEST CONTRACTS. HE THOUGHT THIS PATTERN WOULD BE USEFUL TO REESTABLISH PRINCIPLE OF SANCTITY OF CONTRACTS WHICH HE THOUGHT WAS BADLY SHAKEN BY US ACTION AND WHICH WOULD PROVIDE UNFORTUNATE PRECEDENT FOR OTHER PRODUCING AREAS. LARDINOIS WAS TOLD HIS VIEWS WOULD BE TAKEN INTO CONSIDERATION BUT WAS GIVEN NO HARD ASSURANCE THAT THERE WOULD BE A RELEASE AND IT WAS POINTED OUT THAT RELEASING ADDITIONAL BEANS THE WAY HE PREFERS WOULD BE ESPECIALLY DIFFICULT.

6. ON INTERMEDIATE TERM OUTLOOK, LARDINOIS EXPRESSED HOPE US COULD CALL A CONFERENCE OF THE MAIN PRODUCING AND CONSUMING COUNTRIES -- THE EC, JAPAN, CANADA A AUSTRALIA- TO DISCUSS SUPPLY AND DEMAND FORECAST FOR PROTEIN. EC SIDE TENTATIVELY THINKS OF SUCH A MEETING AS BEING AD HOC AND

OUTSIDE THE EXISTING ORGANIZATIONS SUCH AS FAO AND OECD. US AND EC AGREED THAT FOR THE TIME BEING CONSULTATION SHOULD TAKE PLACE ON BILATERAL BASIS, AND WE WOULD CONSIDER DESIRABILITY OF MULTILATERAL CONSULTATIONS LATER.

7. THERE WAS LITTLE TALK OF MTN EXCEPT THAT LARDINOIS STRESSED THAT RECENT EXPERIENCE PROVED THE NEED TO DEAL WITH AGRICULTURE THROUGH COMMODITY AGREEMENTS. US SIDE EXPRESSED CONSIDERABLE SKEPTICISM IN UTILITY OF CONFIDENTIAL

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COMMODITY AGREEMENTS, ESPECIALLY IN DEALING WITH SHORT SUPPLY CONDITIONS WE HAVE EXPERIENCED RECENTLY. EC SIDE IS THINKING OF AGREEMENTS WHICH WOULD ENABLE EC TO DROP RESTITUTION PAYMENTS AND PARTICIPATE IN COMMON STOCKBUILDING ARRANGEMENTS AS WELL AS AGREED EXPANDED FOOD AID PROGRAMS. LARDINOIS ALSO TOLD US NOT TO EXPECT MAJOR CHANGES IN CAP BUT THE COMMISSION HOPED TO KEEP WHEAT PRICES UNCHANGED FOR FIVE YEARS AND LIMIT CORN PRICE INCREASES TO TOKEN AMOUNTS.

8. BOTH IN PRIVATE AND IN PRESS CONFERENCE LARDINOIS EXPRESSED HIMSELF AS BEING MORE OPTIMISTIC AS A RESULT OF HIS VISIT. HE HAS A BETTER UNDERSTANDING OF THE PRESURES AND CONSIDERATIONS AFFECTING US POLICY IN THIS FIELD AND A BETTER APPRECIATION OF THE SIGNIFICANCE OF THE

PRESIDENT'S POLICY STATEMENT ON PHASE IV. HE KNOWS THAT THE ADMINISTRATION WANTS TO RETURN TO A NORMAL TRADE SYSTEM AND HE HAS A FINER AWARENESS OF THE EVENTUALITIES THAT MAY WORK AGAINST THIS. WE BELIEVE HE IS DETERMINED TO DO WHAT HE CAN TO ASSURE THAT THE COMMUNITY DOES NOT CONTRIBUTE TO EXCESS DEMAND IN THE YEAR AHEAD. RUSH

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 21 JUL 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: elyme
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973STATE143944
Document Source: CORE
Document Unique ID: 00
Drafter: AKATZ:JMR
Enclosure: n/a
Executive Order: GS KATZ
Errors: N/A
Film Number: n/a
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730718/aaaaamwc.tel
Line Count: 175
Locator: TEXT ON-LINE
Office: ORIGIN EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: elyme
Review Comment: n/a
Review Content Flags:
Review Date: 06 SEP 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <06-Sep-2001 by smithrj>; APPROVED <30-Nov-2001 by elyme>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EC COMMISSIONER LARDINOIS' VISIT TO WASHINGTON, JULY 20.
TAGS: PFOR, US, EEC
To: EC BRUSSELS
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005